

Item 1

THE FRANCHISOR, ITS PREDECESSORS AND AFFILIATES

To simplify the language in this Offering Circular, "we" or "us" means FURLA Licensing (USA), Inc., the franchisor. "You" means the individual, corporation or partnership that buys the franchise. If the franchise will operate through a corporation or partnership, "you" also includes the franchisee's owners or partners. Our agents for service of process in those states in the United States whose franchise laws require us to name a state agency as agent for service are shown on Exhibit 4.

We are a Delaware corporation, incorporated in June 1998. We do business under the FURLA® name. Our principal business address is 389 Fifth Avenue, Suite 700, New York, New York 10016, and our telephone number is (212) 213-1177.

We franchise distinctively-designed retail shops selling leather goods, and accessories and shoes bearing the FURLA® proprietary marks (the "FURLA® Shop(s)" or the "Shop(s)") in the United States and elsewhere in the western hemisphere. Leather goods; e.g., handbags, are the primary product FURLA® Shops sell, but they also sell shoes and other products such as scarves, belts, wallets, watches and jewelry.

We have no predecessors.

We have also granted a trademark license for the operation of franchised Shops in Mexico, Republic of Panama, St Maarten, NA and in Vancouver and Toronto, Canada. We began offering franchises for FURLA® Shops in October 2001. However, our indirect corporate parent and affiliate FURLA S.P.A. ("FURLA® Italy"), an Italian corporation, which has manufactured FURLA® leather products and accessories and operated company-owned FURLA® Shops outside the United States for over 60 years, has franchised FURLA® Shops outside the United States since 1976. Between 1984 and September 1995, FURLA® Italy has operated a FURLA® Shop on Madison Avenue in New York City. In September 1995, our direct corporate parent and affiliate, FURLA USA, Inc. ("FURLA® USA") was formed to operate the 727 Madison Avenue Shop and to import and sell FURLA® products in the United States. FURLA® USA currently operates the Madison Avenue Shop through a wholly owned subsidiary and six other FURLA® Shops also through wholly owned subsidiaries, located at 598 and 727 Madison Avenue in the mid-town area of New York City, Woodbury, New York, Cabazon, California, Short Hills and Paramus, New Jersey, Beverly Hills, California, Tampa, Florida, Sunrise, Florida and Orlando Florida.

The address of FURLA® Italy is via Bellaria, 3-5, San Lazzaro di Savena (Bologna) Italy, and its telephone number is 011-39-051-620-2711. FURLA® USA's principal business address is 389 Fifth Avenue, Suite 700, New York, New York 10016, and its telephone number is (212) 213-1177.

As of the date of this Offering Circular, FURLA® Italy has company-owned and franchised FURLA® Shops throughout Europe, USA, South America and Asia and in Moscow, Russia.

Neither we, FURLA® Italy, FURLA® USA nor any of our other affiliates have offered franchises for any other type of business. Unless otherwise stated, references in this Offering Circular to the "Franchise Agreement" refer to both the United States Franchise Agreement and the International Franchise Agreement (See Exhibit 1). Under the Franchise Agreement, you must purchase all FURLA® products from us or our affiliates. Currently, you buy all FURLA® products directly from us.

The market for the FURLA® products consists of members of the general public seeking to purchase high-quality leather goods, handbags, shoes and other high-quality products such as small leather goods, wallets, belts, scarves, watches and jewelry. You will compete with other brands of these products sold by dedicated retail stores, "shops in shops," specialty stores and department stores.

We know of no laws, rules or regulations that are specific to the industry in which your franchised business will operate. The laws, rules and regulations that apply to businesses in general will affect you. Consult your lawyer about them.

Item 2

BUSINESS EXPERIENCE

Director and President: Giovanna Furlanetto

Ms. FURLAnetto has served as our President and as a member of our Board of Directors since January 2003. In addition, Ms. FURLAnetto has served as President and as a member of the Board of Directors of FURLA[®] USA since January 2003. She has also served as President of FURLA[®] SPA in Bologna, Italy since 1978.

Managing Director – Operations, Finance and Franchising: Bruce S. Pettibone

Mr. Pettibone has served as our Managing Director – Operations, Finance and Franchising since September 2003. Between June 1992 and August 2003, Mr. Pettibone served as Managing Director-Chief Operating Officer in Mount Vernon, New York of both JACFRAN CORP. (the franchisor of *jacadi*[®] children's wear stores) and Jacadi U.S.A. (the distributor of *jacadi*[®] children's wear in the U.S. and Caribbean and the operator of *jacadi*[®] corporate stores in the U.S.).

Managing Director – Merchandising and Marketing – Carol DiMaio-Lucas

Ms. DiMaio-Lucas has served as our Managing Director – Merchandising and Marketing – since July 2003. Between January 1998 and June 2003, Ms. DiMaio-Lucas served as Vice President of Accessories for Cole Haan in New York City.

Vice-President: Nanda Kalipershad

Ms. Kalipershad has served as our Vice-President since January 2003. Between September 2001 and December 2002, Ms. Kalipershad served as Controller and Finance Manager of FURLA[®] USA and its subsidiaries. In addition, Ms. Kalipershad was an accountant for FURLA[®] USA and its subsidiaries from September 2000 to August 2001. From 1997 to August 2000, Ms. Kalipershad served as Senior Accountant at George R. Funaro & Co., PC in New York, New York.

Item 3

LITIGATION

No litigation is required to be disclosed in this offering circular.

Item 4

BANKRUPTCY

No person previously identified in Item 1 or 2 of this offering circular has been involved as a debtor in proceedings under the U.S. Bankruptcy Code that must be disclosed in this Item.

Item 5

INITIAL FRANCHISE FEE

There is an initial lump-sum franchise fee of \$25,000 when you sign the franchise agreement. The franchise fee is not refundable for any reason. We will designate the dollar amount and categories of the opening inventory of FURLA® products that you must purchase from us before your franchised Shop opens predicated upon your sales pro-forma. We estimate that the cost of this opening inventory will range from \$75,000 to \$125,000 depending on the season and the size of your Shop. If your FURLA® Shop will open in the fall or winter, your opening inventory cost is likely to fall in the high end of this range because our fall and winter products tend to be more expensive and because customers tend to spend more in the fall and winter. We will notify you when your order is shipped. Your payment for the order is due no later than 30 days after the date of the invoice. Payment must be in U.S. dollars. We pay all shipping costs and customs duties to the port of entry (see Item 6).

Payment for the initial inventory (and any other inventory) is not refundable, except under the following conditions: If you claim that any FURLA® System Product we delivered to you is defective, then you must notify us within two weeks of delivery. After we receive your notice, we will verify your claim and send you instructions for returning the Product that you claim is defective. If the product is defective, we will either refund the purchase price of the product or, at our option, replace the product.

Promptly after we sign the Franchise Agreement, you must deliver to us a standby irrevocable letter of credit issued by a major US bank or a US banking affiliation, with a minimum term equal to the term of the Franchise Agreement, in the amount stated in your Franchise Agreement. This letter of credit must remain in force and undiminished throughout the Initial Term and any Renewal Terms of the Franchise Agreement. You must increase the letter of credit in amount as we reasonably request periodically to reflect your future financial obligations to us and to our affiliates under the Franchise Agreement. By its terms, the letter of credit must enable us, with or without notice to you, to draw down on the letter of credit in any amount necessary to cure a monetary default by you under the Franchise Agreement or any other agreement between you and us and/or our Affiliates through submission of only (1) a signed statement that we have requested payment and that you are at least 30 days past due on your financial obligation to us and/or our affiliates and (2) copies of past due invoices or statements.

Unless we specifically pre-approve otherwise in writing, you must purchase all advertising and promotional materials from us or our affiliate. We or our affiliate will sell you these materials at our or our affiliate's cost, which varies widely depending on the nature of the materials, and ranges from approximately \$20 for stationery to approximately \$3,000 for advertising artwork made specifically for you. Your costs depend on the nature and quantity of the advertising and promotional materials purchased. Payments for advertising and promotional materials are not refundable.

You will purchase your in-store merchandising fixtures through our approved suppliers and there will be a 10% fixture concept design charge included within your purchase price.

You pay us no other fees or payments for goods or services before your Shop opens.

The Commissioner for the State of Maryland, for franchises sold in Maryland, has determined that all franchise fees shall be held in escrow until such time as we have satisfied all material pre-opening obligations to you.

Item 6
OTHER FEES

Name of fee	Amount	Due Date	Remarks
Start-up Marketing Expense	\$2,500 before opening and \$2,500 within 60 days of opening	Expended by you locally according to a pre-approved marketing/advertising program.	See franchise agreement 11.07. Not paid to us. Not refundable once paid.
Continuing Royalties	0% of first 2 selling seasons Gross Sales 1.0% of second year s Gross Sales 1.5% of third year s Gross Sales 2.0% of fourth and all future year's Gross Sales.	Payable monthly within – 10 days after the close of the prior month.	Gross Sales is defined in Note 3 below. Paid to us. Not refundable once paid.
National Advertising/marketing Fee	Such amounts as we prescribe from time to time. We presently prescribe 1% of Gross Sales	When Royalty is paid	See franchise agreement. Paid to us. Not refundable once paid.
Required Minimum Expenditure for Local Advertising	2% of annual Gross Sales	As you shall determine subject to our approval	Required expenditure percentage will not change during term of Franchise Agreement. Except for advertising and promotional materials (see below), you pay third parties for your local advertising and promotion. This requirement begins 61 days after opening. Not paid to us. Not refundable once paid.
FURLA® Products and inventory	See Note 1.	30 days after date of invoice date	You must buy the FURLA® products from us (unless we notify you of another supplier, which will be one of our affiliates). Paid to us. Not refundable once paid. See Note 1 and Item 8.
Advertising and Promotional Materials	At cost, which varies depending on the material, and ranges from approximately \$20 for stationery to approximately \$3,000 for special advertising artwork made specifically for you.	Within 30 days of invoice date.	Unless pre-approved by us in writing, you must purchase all advertising and promotional materials from us or our affiliate. We or our affiliate will furnish these materials to you at our or our affiliate's cost. In addition, if you want to engage in direct mail advertising for the Shop, unless we pre-approve in writing otherwise, you may only use materials you purchase from us or our affiliates, and you must obtain our advance written approval before you do so. We or our affiliate will sell you these materials at our cost. Paid to us. Not refundable once paid.

Name of fee	Amount	Due Date	Remarks
Initial Training	You pay all expenses of your trainees in connection with training, such as their salaries, airfare, other transportation costs, meals, lodging and other living expenses. See remarks for subsequent trainee charge.	Trainees expenses as incurred. Fee for subsequent trainees due when we request.	Your Shop Manager must attend and pass initial training program. Attendance by your Assistant Shop Manager is optional. We will provide the initial training program for up to two of your personnel (including your Shop Manager) for no charge. All Shop Managers appointed later must also pass the Initial Training Program. For initial training of replacement Shop Managers, you pay us actual cost of salary of person(s) performing training, prorated for actual time spent (including travel and preparation time). If the initial training for replacement Shop Manager is at your Shop, you also pay actual expenses of our employee(s) for transportation, meals, lodging and other living expenses. If the initial training for replacement Shop Manager is at a location other than your Shop, you also pay all expenses of your replacement Shop Managers in connection with training. Paid to us. Not refundable once paid.
Additional On-Site Training and Assistance Per Diem fee	Fee no greater than actual cost of salary of the person(s) performing additional training and assistance, prorated for the actual time spent (including travel and preparation time), plus actual expenses of our employee(s) for transportation, meals, lodging and other living expenses.	When we or you requests	We will provide on-site training and assistance immediately before and following the opening of the Shop at no charge (duration is at our option). You can request additional on-site training or assistance at any time, but we are not obligated to provide additional on-site training or assistance. If we provide additional on-site training or assistance, we can impose fee in column 2. Your request must be in writing. Paid to us. Not refundable once paid.
On-Going Training	Expenses only – see remarks	As incurred.	If we hold an annual conference, convention or training session, you and your Shop Manager must attend. No training charge, but you pay all expenses incurred by you and your employees. Paid to us. Not refundable once paid.
Testing Costs	At our cost, which varies widely depending on the product or service and ranges from approximately \$500 for stationery to approximately \$40,000 for the in-shop merchandising furniture.	When we request or upon our submission of the cost invoice to you.	If you propose a supplier we have not approved, we may test, at your expense, the product or service of any supplier you propose. Paid to the testing lab. Not paid to us. Not refundable once paid.

Name of fee	Amount	Due Date	Remarks
Taxes		Promptly when due	You must pay us all taxes we or our affiliates pay on account of goods or services furnished to you or for taxes incurred on any royalty, marketing or advertising fees. Not paid to us. Not refundable once paid.
Advances		When we request	You must pay us all amounts we advance to third parties for you. Paid to us. Not refundable once paid.
Late Charge or Interest	Maximum law allows, or if no legal maximum, then 2% above prime rate	When we or our affiliate request	Late charge on any past due amounts owed to us or our affiliates. We will not increase charge beyond formula in column 2 during term of Franchise Agreement. Paid to us. Not refundable once paid.
Management Fee on Death or Disability	Actual expenses plus actual cost of salary of person(s) performing the management services, prorated for the actual time spent (including travel time)	See Remarks.	From date of your death or disability (or of your last surviving principal, partner or shareholder if you are an entity) until Shop Manager assumes control, we may operate Shop, but will have no obligation to do so. If we do, then we will deduct our expenses from Shop's Gross Revenues and pay ourselves the management fee shown in column 2. We will remit any remaining funds to your Estate. Estate must pay us any deficiency in sums due us under Franchise Agreement within 10 days of our notifying Estate of deficiency. See Item 17. Paid to us. Not refundable once paid.
Indemnification			You indemnify us from certain losses and expenses – see Sections 7.04 and 15.04 (C) of both Franchise Agreements, Section 9.12 of the U.S. Franchise Agreement and Section 9.13 of the International Franchise Agreement. Paid to us. Not refundable once paid.
Application of Funds			We and our affiliates or subsidiaries can apply your payments to any obligation due us or our affiliates or subsidiaries and we have the right to set off any amounts you owe us or our affiliates or subsidiaries against any amounts we might owe you or your owners. Not refundable once paid.
Relocation Expense	Actual costs incurred by us	Payable upon completion of any relocation	Relocation expenses to be reimbursed consist of our expenses for re-designing the new franchise location and the costs of making changes to the franchise agreement. Based upon our experience, we estimate our relocation expenses to be between \$1,500 and 3,000. Paid to us. Not refundable once paid.
Stand-by Letter of Credit	Varies by bank, but usually 1-2% of the amount of the L/C	Payable to bank upon issuance and annually thereafter	A minimum \$45,000 stand-by Letter of Credit is required by us as a form of security on seasonal merchandise deliveries. Paid to us. Not refundable once paid.
Attorneys Fees			See Note 2. Not refundable once paid.

Name of fee	Amount	Due Date	Remarks
Operations Manual replacement charge	\$1.00/page	When replacement pages are delivered or requested by you.	See franchise agreement. Paid to us. Not refundable once paid.
Auditing Costs	Actual costs	Reimbursement of our actual auditing costs	You must reimburse us for our auditing costs if we have to audit you because you fail to provide us with required reports on a timely basis. See franchise agreement. Paid to us. Not refundable once paid.
Transfer Fee	\$10,000	Concurrently with the transfer	Amount is adjusted for inflation, See franchise agreement. Paid to us. Not refundable once paid.
Renewal Fee	\$20,000	Concurrently with our granting a renewal franchise to you	The Renewal Fee is the charge for renewal at the end of the original franchise term. Amount is adjusted for inflation. See franchise agreement. Paid to us. Not refundable once paid.

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[1] The Franchise Agreement sometimes refers to the FURLA® products as the "FURLA® System Products," but this Offering Circular simply refers to them as the "FURLA® products". You must purchase FURLA® products from us unless we notify you of another affiliated supplier. These sales will be on the terms and in the minimum quantities that we or our other affiliated supplier specify in written communications to you (for example, via invoices for the products) or as we specify in our Manual or in our Standard Terms and Conditions of Sale. We or our affiliate will notify you when each of your orders of FURLA® products is shipped. Your payment for the order will be due no later than 30 days after the date of the invoice. All payments for FURLA® products (and all other payments under the Franchise Agreement) must be in U.S. dollars. We or our affiliates or parent company are not obligated to deliver you goods if your invoice payments or royalty payments are in arrears of any amount.

Promptly after we sign the Franchise Agreement, you must deliver to us a standby irrevocable letter of credit issued by a major bank, with a minimum term equal to the term of the Franchise Agreement, in the amount stated in your Franchise Agreement. This letter of credit must remain in force and undiminished throughout the Initial Term and any Renewal Terms of the Franchise Agreement. You must increase the letter of credit in amount as we reasonably request periodically to reflect your future financial obligations to us and to our affiliates under the Franchise Agreement. By its terms, the letter of credit must enable us, with or without notice to you, to draw down on the letter of credit in any amount necessary to cure a monetary default by you under the Franchise Agreement or any other agreement between you on the one hand and us and/or our Affiliates, on the other hand through submission of only (1) a signed statement that we have requested payment and that you are at least 30 days past due on your financial obligation to us and/or our affiliates and (2) copies of past due invoices or statements. We or our affiliates or parent company are not obligated to deliver you goods if you have not delivered to us the required original standby letter of credit in the amount we specify and from a bank approved by us.

We (or the affiliate we designate) will sell you all FURLA® products. Currently you must purchase all FURLA® Products from us. We (or our designated affiliate) will pay all shipping costs and any customs duties in connection with the shipment of the FURLA® Products to the port of entry. We (or our affiliate) will have no duty or responsibility regarding the selection of any carrier from the port of entry to your shop nor any responsibility for your goods while in-transit with the carrier you select. Under the terms of the Franchise Agreement, you waive any possible claim against us (or our affiliate) arising out of or related to the actions of any carrier. This waiver is not intended to act nor will it act as a release, estoppel or waiver of any liability incurred under the Maryland Franchise Registration and Disclosure Law.

If any FURLA® product delivered to you under the Franchise Agreement is defective, then you must so notify us of this within two weeks of delivery. Promptly after we receive your notice, we (or our designated affiliate

selling the Product) will furnish you with instructions for returning the defective product. We (or our affiliate) will either refund the purchase price of the product plus any shipment costs you paid for the Product, or, at our or our affiliate's option, replace the product at your Shop.

If any of your customers returns a FURLA® product within 1 year of purchase by the customer, then you must repair the Product at no cost to the customer, and we will reimburse you for your costs of repair. If any of your customers returns a FURLA® product later than 1 year of purchase by the customer, then you may repair the product at no cost to the customer, but we will not reimburse you for your costs of repair. This policy is solely designed for FURLA® products that were defective due to manufacturing defects and not due to customer misuse or damaged by customer.

Your exclusive remedy and our and our affiliates' exclusive liability for all claims as to any FURLA® products delivered to you or for delayed delivery or non-delivery of any FURLA® products is limited to the purchase price of the FURLA® products in question (plus any shipment costs you paid for the products) or, at our or our affiliate's option, the replacement of the FURLA® products at your destination. You, we and our affiliates will not be liable for special, incidental, indirect or consequential damages, whether or not caused by or resulting from the negligence of the party in question. If you are in default under the Franchise Agreement, then we and our affiliates will have no obligation to sell you FURLA® products or any other products or services. You will not have any right to offer or sell the FURLA® products and you will not, as a result, have a defense at law or equity based upon impossibility of your performance, nor any claim against us or our affiliates.

[2] If we prevail in any action against you to secure or protect our rights under the Franchise Agreement, or to enforce the terms of the Franchise Agreement, we will be entitled to recover from you reasonable attorneys' fees, experts' fees, court costs and all other expenses of litigation.

If we become a party to a proceeding concerning an agreement between us and you (and we win), or to a proceeding concerning the franchised Shop, as a result of a act, error or omission of yours, because of statutory, "vicarious", "principal/agent" or other liabilities imposed on us as your franchisor; or if we become a party to bankruptcy litigation or insolvency proceedings regarding your franchise, then you will be liable for our reasonable attorneys' fees and court costs. If we terminate the Franchise Agreement for your default, or if you terminate the Agreement through non-payment (see Item 17, section d.), you must pay us all our expenses from your default or termination, including reasonable attorneys' and experts' fees.

[3] The term "Gross Sales" means all revenues and income from whatever source derived or received by Franchisee from, through, by or on account of sales of FURLA® System Products (and any System services) by, at or from the franchised FURLA® business, whether received in cash, in services, in kind, from barter and/or exchange, on credit or otherwise. There must be excluded from Gross Sales all refunds, charge-backs, credits and allowances given customers by Franchisee, and all sales taxes or similar taxes that, by law, are chargeable to customers. For the purpose of determining Gross Sales, all barter and/or exchange transactions where Franchisee furnishes FURLA® System Products (or System services) in exchange for goods or services to be provided to Franchisee by a vendor, supplier or customer will be valued at the full retail value of the goods and/or services provided to Franchisee.

Item 7

YOUR ESTIMATED INITIAL INVESTMENT

CATEGORY OF INVESTMENT	ESTIMATED LOW US\$	ESTIMATE HIGH US\$	METHOD OF PAYMENT	WHEN DUE	TO WHOM PAID
Real Property	See Note 1				
Construction/Leasehold Improvement	50000	105000	See Note 2	As seller or landlord	As seller or landlord

CATEGORY OF INVESTMENT	ESTIMATED LOW US\$	ESTIMATE HIGH US\$	METHOD OF PAYMENT	WHEN DUE	TO WHOM PAID
				requires	requires
Décor, Fixtures, Furnishings, Signs, Equipment & Supplies	100000	140000	As seller requires See Note 2	As seller requires	Seller
Initial Franchise Fee See Note 7	25000	25000	Lump sum	When you sign the franchise agreement	Us
Computerized Point of Sale System and Software See Note 3	5000	10000	As seller requires	As seller requires	Seller
Opening Inventory of FURLA® Products See Note 4	75000	125000	Lump sum	You must pay invoice price no later than 30 days from invoice date	Us
Opening Advertising See Note 8	5000	5000	As sellers require	As sellers require	Sellers, Us or Affiliate
Additional Funds (3 Months) See Note 9 See Note 10	19000	64000	As expenses occur	Payroll weekly, other purchases according to agreed-on terms	Employees, sellers of goods and services
Totals	279000	474000			
(Note 10) (excluding real property)					
None of the expenses described in this chart is fully refundable. We do not expect the costs of items you purchase from FURLA® USA or third parties to rise faster than general inflation, but cannot guarantee this, since a third party's costs will go up with inflation in its industry segment and because of material shortages, natural catastrophes, strikes, Acts of God, and other causes beyond their control.					

NOTES

- [1] If you do not have acceptable space for your Shop in a class A mall or comparable free-standing or shopping center location, you will have to lease at least 800-1,100 square feet in a class A mall or a comparable free-standing building or shopping center for a Shop Location. We expect that most franchisees will lease the premises of their Shops. Since real estate values vary dramatically from region to region, we cannot accurately estimate your rent. To estimate the rental expense for your Shop Location, apply the above square footage requirements to the local real estate rental costs in the area in your Territory where there are suitable locations. We do not finance any portion of your investment.

IMPORTANT NOTE: The estimated costs in the chart above are based on a 1,000 square foot Shop. Your expenses will be greater for a larger Shop.

- [2] The cost of construction or leasehold improvements will vary depending on your construction and renovation costs and how many of those costs the landlord will pay (if any). We will provide you with a layout for the interior of a typical FURLA® Shop of the type that you will be operating and a set of typical preliminary construction plans and specifications for furniture, fixtures, equipment and/or décor for your type of Shop. You must employ architects, designers, engineers or others as necessary to complete, adapt, modify or substitute the layout, plans and specifications for the Shop, including any changes required by the landlord. We must approve any changes or variations from the plans we give you prior to construction or installation. The store construction and interior remodel (décor, etc) costs include façade, floor covering, wall treatment, counters, ceiling, lighting and all electrical, carpentry and other skilled labor.
- [3] Before you open the Shop, you must purchase and install the required computerized point of sale system and software. See Item 11.
- [4] We will designate the dollar amount and categories of the opening inventory of FURLA® products that you must purchase from us, based upon your pro-forma, before your franchised Shop opens. We pay shipping costs and customs duties to the port of entry. You have to pay all shipping costs from the port of entry. After the Shop opens and based upon your pro-forma or plan/goal sales projections, you must purchase and maintain in your inventory categories and minimum amounts of FURLA® products designated by line, article, color and/or other classification that will enable you to achieve your pro-forma or planned/goal sales projections. You must also maintain a current seasonal inventory of each category of FURLA® product adequate to satisfy customer demand at all times. We will define product "categories" in our Manual or by other written communications with you. See Items 5, 6, 8, 10 and 11. If you do not purchase and maintain the required current seasonal product inventory or maintain an adequate inventory of each current seasonal product category to satisfy customer demand, we can terminate the Franchise Agreement unless you cure the violation within the time provided (see Item 17) If you claim that any FURLA® System Product we delivered to you is defective, then you must notify us within two weeks of delivery. Promptly after we receive your notice, we will send you instructions for returning the Product that you claim is defective. If the product is defective, we will either refund the purchase price of the product or, at our option, replace the product. We typically require you to place your seasonal orders 6 months prior to delivery and we do not guaranty delivery of 100% of your seasonal order. In season reorders usually take from 2-10 weeks, if the merchandise is in stock. However, we do not guaranty that we can fill reorders. You must agree to be bound by our standard terms and conditions of sale, which might change from time to time.
- [5] Actual cost dependent on work done by accountant and attorney, and standard regional rates.
- [6] As countries, states and localities require.
- [7] See Item 5.1. above
- [8] Beginning one month before the scheduled opening of the franchised Shop and continuing for two months after the opening, you must spend \$5,000 on local advertising, marketing and promotion. (Then starting on the first day of the third month after opening, you must spend 2% of your Gross Sales on local advertising and promotion. After that you must annually spend 2% of your previous year's sales on local advertising and promotion). Unless specifically pre-approved by us in writing, you must purchase all advertising and promotional materials from us or our affiliate. We or our affiliate will sell you these materials at our or our affiliate's cost, which varies widely depending on the nature of the materials, and ranges from approximately \$20 for stationery to approximately \$2,000 for advertising artwork made specifically for you.
- [9] The estimate of additional funds for the initial phase of your Shop is based on your staff salaries and operating expenses for the first three months of operation. The additional funds required will vary by your area; how much you follow our methods and procedures; your management skill, experience and business acumen; the relative effectiveness of your staff; local economic conditions; the local market for FURLA® products; the prevailing wage rate; competition; and the sales level reached during the initial period. You most likely must provide security deposits for utilities and rent (and possibly for other items).

[10] We and our affiliates do not finance your initial investment. In compiling these estimates, we rely on our affiliates' experience in operating and franchising FURLA® Shops. You should review these figures carefully with a business advisor before making any decision to purchase the franchise.

The following Additional Funds may be necessary.

<i>Investment Item</i>	<i>Estimated Low</i>	<i>Estimated High</i>	<i>Remarks</i>
Insurance (annual premium) See Note 11	\$3,000	\$5,000	First year's premiums
Lease Deposits See Note 13	\$1,500	\$13,000	900 sq feet to 1300 sq feet
Interest on letter of credit. See Note 14	\$450	\$900	To secure deliveries
Professional fees	\$1,000	\$5,000	For accountants or lawyers
Permits and licenses	\$1,000	\$5,000	Fees paid to government agencies
Transportation, Lodging and Other Expenses During Initial Training	\$2,000 See Note 12	\$5,000	Estimated expenses for attending initial training
Architect/engineer fees	\$2,000	\$5,000	Professional fees to design shop
Operating cash	\$8,450	\$25,100	Needed for various operating expenses like bank fees, paper goods, etc.
Total	\$19,400	\$64,000	

[11] One to two months' premium for required insurance coverage. You must maintain the following insurance with any insurance company rated "A" by A.M. Best & Co.:

1. Broad form comprehensive general liability coverage and broad form contractual liability coverage satisfactory to us with combined single limits of at least \$1,000,000 per occurrence, with a \$2,000,000 annual aggregate.
2. All Risk Property Insurance on your Shop and property in an amount adequate to replace them 100% of cost in case of an insured loss, insuring against all risks of direct physical loss (including, for example, theft, fire, sprinkler leakage, lightning, explosion, tornado and windstorm), except for unusual perils such as nuclear attack, earth movement and war. This insurance must name us as a "Loss Payee" with respect to the covered FURLA® products as our interests may appear.
3. Business Interruption Insurance in sufficient amounts to cover the rental of the Shop, previous profit margins, maintenance of competent personnel and other fixed expenses.
4. If any vehicle is operated in connection with the conduct of the franchised business, automobile liability coverage, including coverage of owned, non-owned and hired vehicles, with minimum limits of liability in the greater of (a) an amount no less than that required by all applicable laws, or (b) combined single limits of \$1,000,000 for each person killed or injured, and, subject to that limit for each person, a total minimum liability of \$2,000,000 for any number of persons injured or killed in one accident, and a minimum limit of \$300,000 for injury, destruction or loss of use of property of third persons as the result of any one accident. In addition you must maintain Umbrella Excess Liability coverage in at least \$2,000,000 in excess of the required automobile liability insurance.
5. Worker's compensation and employer's liability insurance (in statutory amounts), unemployment insurance and disability insurance (as required by governing law), for your employees.
6. In connection with any construction, refurbishment or remodeling of the Shop, builders' and/or contractor's risk insurance (as applicable) and performance and completion bonds in forms and amounts acceptable to us.

7. Umbrella Excess Liability in at least \$2,000,000 in excess of the liability insurance required under (1) above.
8. \$500,000 product liability insurance coverage.

All insurance purchased by franchisee shall name FURLA Licensing (USA), Inc. and FURLA® USA, Inc. as an additional insured and we can change the required coverage's and amounts from time to time.

- [12] The required initial training program is at our headquarters in New York, New York. You or your Shop Manager must attend the initial training program. Attendance by your Assistant Manager is optional. We will provide the initial training program for up to two of your personnel (including your Shop Manager) for no charge. You pay all expenses of your trainees in connection with training, including, for example, their salaries, airfare, other transportation costs, meals, lodging and other living expenses. See Item 11.
- [13] A Lease deposit might be required by the landlord to secure payment and your performance under the lease.
- [14] You must secure an initial standby letter of credit in favor of us in the initial amount of \$45,000 and also execute a guaranty personally guarantying your obligations to us for purchases of merchandise and other items and the payments of any royalty's or advertising fees due us or our affiliates.

Item 8

RESTRICTIONS ON SOURCES OF PRODUCTS AND SERVICES

You must purchase FURLA® products from us unless we notify you of another supplier affiliated with us. See Item 6. We are currently the only approved supplier for FURLA® products and the FURLA® products are the only products or services for which we are the only approved suppliers. You currently purchase all FURLA® products from us, you make no purchases from any of our affiliates and our affiliates are not currently approved suppliers for any item.

We will designate the dollar amount and categories of the opening inventory of FURLA® products that you must purchase from us before your franchised Shop opens based upon your prepared sales pro-forma. After the Shop opens you must purchase and maintain in your inventory categories of FURLA® products that we designate. You must also maintain at all times a current seasons inventory of each category of FURLA® product (as we define them) that is adequate to satisfy customer demand at all times. See Items 6, 10 and 11. If you do not purchase and maintain the required current season's product inventory or maintain an adequate inventory of each category of FURLA® product sufficient to satisfy customer demand, we can terminate the Franchise Agreement unless you cure the violation within the time provided (see Item 17).

Your initial opening order and all future seasonal product orders must be placed 6 months prior to shop opening. Your orders may not be cancelled in whole or in part once it has been received and processed by us. Notwithstanding this non-cancellation policy, we offer a special accommodation with respect to merchandise return or credit and other matters to new storeowners with respect to their first year of operation. A copy of this special accommodation entitled "FURLA Licensing (USA), Inc. First Year of Operations Exceptional Merchandise Return or Credit Agreement" is appended to our Terms and Conditions of Sale that are an Exhibit to the franchise agreement.

We receive revenues from our franchisees from sales of FURLA® products. Our total revenues from all sources for the fiscal year which ended October 31, 2004 were \$2,207,706 and our total revenues from franchisee purchases of FURLA® products for the same period were \$2,107,706, or 95% of total revenues.

We will provide you with specifications governing the minimum standards of certain products, services or equipment you procure from unaffiliated third parties in our Manual or in other written notices we transmit to you. We issue and modify specifications in writing, through our Manual or other written notices to franchisees. We may modify our specifications in writing, and may add new specifications in writing.

We do not maintain written criteria for approving suppliers, and thus these criteria are not available to you or your proposed supplier. If we name a supplier for a product or service and you propose a different supplier, then to obtain our written approval:

- You must submit a written request to us for approval of the supplier.
- The supplier must meet our specifications to our reasonable satisfaction.
- The supplier must demonstrate to our reasonable satisfaction that it is in good standing in the business community for financial soundness and reliability of its product or service.

We may test, at your expense, the product or service of any supplier you propose, whether or not the supplier is then approved by us (see Item 6). We will give you notice of our approval or disapproval within six to eight weeks. If we revoke approval of any supplier, we will give you written notice (in our Manual or otherwise).

Before you open the Shop, you must purchase and install the required computerized point of sale system and software. See Item 11.

We will offer to sell to you (directly, or through a designee) any printed-paper products bearing the proprietary marks and other non-proprietary items bearing the proprietary marks. You are under no obligation to purchase such products from us or our designee, if we have approved the supplier and item as provided above.

We will provide you with a layout for the interior of a typical FURLA[®] Shop and a set of typical preliminary construction plans and specifications for furniture, fixtures, lighting, equipment and/or decor. You must, at your expense, employ architects, designers, engineers or others to complete, adapt, modify or substitute the layout, plans and specifications for the Shop. You must submit a complete set of final plans and specifications to us before you begin construction of the Shop. We will review the final plans and specifications promptly and either approve or disapprove them and provide comments to you. You may not begin construction of the Shop until we have approved the final plans and specifications in writing. If your Shop will be in the United States, then before we approve your final plans and specifications, your architect must certify to us that the plans and specifications for the Shop comply with the Americans with Disabilities Act (the "ADA"), the architectural guidelines under the ADA, and all applicable state and local codes for accessible facilities and/or any other state or local building specifications, regulations or requirements. You must make all leasehold improvements and install all fixtures, furniture and equipment at the Shop required to comply with our current requirements and specifications.

You must remodel and update your Shop to our then current presentation and store image standards no more than once during the Initial Term of the Franchise Agreement and you must do a complete remodel to our then current store architectural, design and presentation standards once prior to any Renewal Term unless we otherwise require under the Renewal Franchise Agreement – through making the reasonable capital expenditures necessary to extensively remodel, modernize, redecorate, redesign and renovate your Shop, and to replace and modernize the design, schematic designs, decoration, furniture, fixtures, supplies, and equipment of the Shop to reflect our then-current standards of image, design, architecture and quality. (This requirement is in addition to the refurbishment, redesign and remodeling required as a condition for renewal described in Item 17) You must begin remodeling, modernizing, redecorating, updating and/or renovating the franchised FURLA[®] Shop within three months from the date you receive written notice from us specifying the required remodeling, modernization, redecoration, redesign, updating and/or renovation, and you must diligently complete this work within a reasonable time after its beginning. A general contractor whom we have approved in writing must perform this work in accordance with our standards and specifications. All replacements for the Shop design, decoration, furniture, fixtures, supplies, and equipment must receive our advance written approval; must conform to our then-current standards and specifications; and, if we require, must be purchased from suppliers and vendors that we designate or approve.

We do not expect the prices you pay for purchases from third party suppliers to increase beyond inflation in the applicable industry segment unless the supplier's costs increase due to shortages, catastrophes, strikes, Acts of God, and other causes beyond their control.

We currently negotiate no purchase arrangements with suppliers for the benefit of franchisees. There are no purchasing or distribution cooperatives. We provide you with no material benefits (such as granting additional franchises) based on your use of designated or approved sources. Other than the 10% design surcharge for the store merchandise fixturing, we and our affiliates receive no payments from any unaffiliated supplier, nor do we or our affiliates receive any special discount on purchases from any unaffiliated supplier for ourselves or themselves. We estimate that the required purchases described above are 83% to 85% of the cost to establish a franchised FURLA® Shop and approximately 70% to 80% of operating expenses.

Item 9

FRANCHISEE'S OBLIGATIONS

THIS TABLE LISTS YOUR PRINCIPAL OBLIGATIONS UNDER THE FRANCHISE AND OTHER AGREEMENTS. IT WILL HELP YOU FIND MORE DETAILED INFORMATION ABOUT YOUR OBLIGATIONS IN THESE AGREEMENTS AND IN OTHER ITEMS OF THIS OFFERING CIRCULAR.

Obligation	Section in Agreement	Item in Offering Circular
a. Site selection and acquisition/lease	Section 6 of Franchise Agreement	Items 7 and 11
b. Pre-opening purchases/leases	Sections 8.05, 9.09 and 9.10 of Franchise Agreement	Items 6, 7, 8 and 11
c. Site development and other pre-opening requirements	Section 7 of Franchise Agreement	None
d. Initial and ongoing training	Sections 8.02-8.04 of Franchise Agreement	Item 11
e. Opening	Sections 7.02, 9.01 of Franchise Agreement	Item 11
f. Fees	Sections 3 of Franchise Agreement	Items 5 and 6
g. Compliance with standards and policies/Operating Manual	Sections 9, 11 and 16 of Franchise Agreement	Items 7, 8, 11, 15 and 16
h. Trademarks and proprietary information	Sections 13 and 16 of Franchise Agreement	Items 13 and 14
i. Restrictions on products/services offered	Sections 4.03, 8.05 and 9.09 of Franchise Agreement	Item 16
j. Warranty and customer service requirements	Section 9.09(F) of Franchise Agreement	Items 6 and 16
k. Territorial development and sales quotas	Section 9.09 (D) of International Franchise Agreement	Item 12
l. Ongoing product/service purchases	Sections 8.05, 9.09 and 9.10 of Franchise Agreement	Items 6 and 8
m. Maintenance, appearance and remodeling requirements	Sections 5.2(C), 9.03, 9.04, and 15.04 (A) (14) of Franchise Agreement	Item 11
n. Insurance	Section 10 of Franchise Agreement	Item 7
o. Advertising	Section 11 of Franchise Agreement	Item 11

Obligation	Section in Agreement	Item in Offering Circular
p. Indemnification	Sections 7.04 and 15.04 (C) of both Franchise Agreements, Section 9.12 of the United States Franchise Agreement and Section 9.13 of the International Franchise Agreement	Item 6
q. Owner's participation/management/staffing	Sections 9.07 and 9.08 of Franchise Agreement	Item 15
r. Records and reports	Section 12, Sections 9.15 and 9.22 of Franchise Agreement	Item 6
s. Inspections and audits	Section 12.02 of both Franchise Agreement, Section 9.13 of United States Franchise Agreement and Section 9.14 of International Franchise Agreement	Item 6
t. Transfer	Section 15 of Franchise Agreement	Item 17
u. Renewal	Sections 5.02-5.04 of Franchise Agreement	Item 17
v. Post-termination obligations	Section 19 of Franchise Agreement	Item 17
w. Non-competition covenants	Section 14 of Franchise Agreement	Item 17
x. Dispute resolution	Sections 21 and 22, Sections 14.02, 14.03, 25.03 and 25.04 of Franchise Agreement	Item 17

Item 10

FINANCING

We do not offer direct or indirect financing. We do not guaranty your note, lease or obligation.

We (or our affiliate, if an affiliate is selling your the products) will notify you when each of your orders of FURLA® products is shipped and your payment for the order will be due no later than 30 days after the date of the invoice. We will charge you interest on any past due invoices or fees unpaid and you are required to sign a personal guaranty for your purchases of FURLA® products and for the payment of royalty's and advertising fees.

Promptly after we sign the Franchise Agreement by Franchisor, you must deliver to us a standby irrevocable letter of credit issued by a major U.S. bank or an affiliation with a major U.S. bank, with a minimum term equal to the term of the Franchise Agreement, in the amount stated in your Franchise Agreement. This letter of credit must remain in force and undiminished throughout the Initial Term and any Renewal Terms of the Franchise Agreement. You must increase the letter of credit in amount as we reasonably request periodically to reflect your future financial obligations to us and to our affiliates under the Franchise Agreement or our delivery terms. By its terms, the letter of credit must enable us, with or without notice to you, to draw down on the letter of credit in any amount necessary to cure a monetary default by you under the Franchise Agreement or any other agreement or terms between you and us and/or our Affiliates through submission of only (1) a signed statement that we have requested payment and that you are at least 30 days past due on your financial obligation to us and/or our affiliates and (2) copies of past due invoices or statements and the letter of credit. Partial draws are permitted.

We and our affiliates have no past practice or future intent of selling, assigning or discounting our U.S. franchisees' financing arrangements to a third party. We and our affiliates do not receive any direct or indirect payments from any person for the placement of financing with franchisees.

Item 11

FRANCHISOR'S OBLIGATIONS

Except as listed below, we need not provide any assistance to you.

Pre-Opening Obligations

Before you open your Shop, we will:

- (1) Designate your Territory and grant you a franchise to operate a FURLA® Shop within the Territory. (Franchise Agreement, Section 4.01)
- (2) Approve or disapprove a site of your choice for your Shop Location. You select the sites of your Shop Location in your Territory. We approve or disapprove your proposed site. (Franchise Agreement, Section 6.01) If you have not selected a site that we have approved before you sign the Franchise Agreement and you and we cannot agree on a site for your Shop Location within 3 months after we sign the Franchise Agreement, then we can terminate the Franchise Agreement.
We consider the following factors in approving sites: the size of your Territory; the market potential and estimated volume of your Shop; the general location and neighborhood and proximity to customers; store visibility; traffic patterns; the image and quality of other businesses in the same mall, shopping center or street; age and condition of the mall, shopping center or other building in which the proposed Shop Location is situated; size of the space; ingress and egress; the availability of locations and necessary zoning; the location of competitors; expected overhead; and, traffic patterns.
- (3) Approve or disapprove the lease terms or purchase agreement for the Shop Location within 20 business days after we receive it. If we do not communicate our approval or disapproval to you in that time, the agreement is approved. (Franchise Agreement, Section 6.02)
- (4) Provide you with store design and construction specifications and review your final plans and specifications for the Shop promptly and approve or provide comments on the plans and specifications to you. You may not commence construction of the Shop until we approve the final plans and specifications in writing. (Franchise Agreement, Section 7.01)
- (5) Approve or disapprove all signs, posters and displays in writing before installation or display. (Franchise Agreement, Section 7.05)
- (6) Lend you a copy of the Confidential Operating Manual (the "Manual") during the Initial Training Program (described below). Our Manual will consist of various component manuals, written bulletins, faxes and other written notices. You must strictly comply with the Manual in operating your Shop. We can change the Manual from time to time, and you must comply with these changes when you receive them, but they will not materially alter your rights and obligations under the Franchise Agreement.
The following is the Table of Contents of the Manual as of the date of this offering circular:

Topic	Number of Pages
General Principles	10
Business Operation	10
Customer Service and Attendance	10
Visual Merchandising	30
Total Pages	60

- (7) Designate the opening inventory of FURLA® products you must buy before the opening of the franchised Shop based upon your pro-forma. See Items 6-8. (Franchise Agreement, Section 9.09)

- (8) Sell you the FURLA® products and pay all shipping costs and any customs duties to the port of entry. See below in this Item 11 and Items 6 and 8. (Franchise Agreement, Sections 3.02 and 8.05)
- (9) Furnish you with any specifications for required products and services. (Franchise Agreement, Section 9.09)
- (10) Periodically, either establish maximum prices above which you may not sell, or suggest prices. We will not, however, establish or advertise any *minimum* prices below which you may not sell products or services. (Franchise Agreement, Section 8.08)
- (11) Furnish requirements for the selection, training and duties of your Shop Manager and staff. (Franchise Agreement, Sections 9.07 and 9.08)

Training (All training must be completed to our reasonable good-faith satisfaction.)

Nanda Kalipershad, who is identified in Item 2, is in charge of your training program.

After you obtain your Shop Location and before the opening of your FURLA® Shop, we will provide a three -day on-the-job Initial Training Program for up to two people, including your Shop Manager. (There is no classroom training.), as follows:

SUBJECT	TIME BEGUN	INSTRUCTIONAL MATERIAL	HOURS OF CLASSROOM TRAINING	HOURS OF ON THE JOB TRAINING
Customer attendance	Day 1	Manual	4	4
Customer services	Day 1	Manual	4	4
Information system management (if computerized point of sale system selected – see below)	Day 2 & 3	Tutorial	8	N/A
Inventory management	Day 3	Manual	4	N/A
Visual merchandising	Day 2 and 3	Manual	4	24

We conduct our Initial Training Program as frequently as needed at our headquarters in New York, New York. Jennifer Snellgrove, our Retail Director and Roberta Orlandi our Operations Manager, are in charge of the Initial Training Program (see Item 2). The minimum experience of the instructors that is relevant to the subject taught and our operations is from 5 to 7 years.

You or your Shop Manager must attend and pass the Initial Training Program. Attendance by your Assistant Shop Manager is optional. We will provide initial training program for up to two of your personnel (including your Shop Manager) for no charge. You pay all expenses of your trainees in connection with training, such as their salaries, airfare, other transportation costs, meals, lodging and other living expenses.

If you or your Shop Manager fails to successfully complete the Initial Training Program, the person who failed can re-enroll in our next scheduled Initial Training Program at no additional charge. We can terminate the Franchise Agreement if the person fails to successfully complete the Initial Training Program again.

Any Shop Managers you appoint after the opening of your FURLA® Shop must attend and successfully complete our next scheduled Initial Training Program. For training replacement Shop Managers, you must pay us the actual cost of the salary of the person(s) performing the training, prorated for the actual time spent (including travel and preparation time), plus the actual expenses of our employee(s) for transportation, meals, lodging and other living expenses if we conduct the Initial Training Program on-site at your Shop. If we conduct the Initial Training Program at a location other than your Shop, you must pay all expenses incurred by your replacement Shop Managers in connection with the training, such as their salaries, transportation costs, meals, lodging and other living expenses.

We will pay no compensation for any incidental services your trainees perform during training. We can determine the length and subject matter of our training programs, and can train any number of individuals from any number of FURLA® Shops at the same time. (Franchise Agreement, Section 8.02)

We will provide on-site training and assistance immediately before and during the opening of the Shop at no charge (the duration of this training and assistance is at our option). You pay for the transportation costs to get our trainer to your store. You can request additional on-site training or assistance at any time, but we are not obligated to provide additional on-site training or assistance. Any such request must be in writing and sent to our offices via certified US mail. If we provide additional on-site training or assistance, we can impose a fee no greater than the actual cost of the salary of the person(s) performing the training or assistance, prorated for the actual time spent (including travel and preparation time), plus the actual expenses of our employee(s) for transportation, meals, lodging and other living expenses.

We may conduct an annual conference, convention or training session periodically. We will determine the duration, curriculum and location of these. You (if an individual) and your Shop Manager must attend each annual conference, convention or training session. We will charge you no fee, but you must pay all related expenses of its trainees, such as transportation costs, meals, lodging and living expenses.

The timing of all on-site and off-site training and assistance will be subject to the availability of our personnel.

TABLE OF SUBJECTS

<i>SUBJECT</i>	<i>TIME BEGUN</i>	<i>INSTRUCTIONAL MATERIAL</i>	<i>HOURS OF CLASSROOM TRAINING</i>	<i>HOURS OF ON THE JOB TRAINING</i>	<i>INSTRUCTOR</i>
Personnel	See Note 1	Operations Manual	0.00	1.00	Certified Manager
Administration	See Note 1	Operations Manual	0.00	2.00	Certified Manager
Operations	See Note 1	Operations Manual	0.00	10.00	Certified Manager
Advertising	See Note 1	Operations Manual	0.00	1.00	Certified Manager
Customer Service	See Note 1	Operations Manual	0.00	5.00	Certified Manager
Inventory Control	See Note 1	Operations Manual	0.00	1.00	Certified Manager
Merchandising	See Note 1	Operations Manual	0.00	5.00	Certified Manager

[1] It is the nature of the FURLA® business that all subjects are integrated into the training program, and that there are no clear delineation between the subjects being learned.

Obligations After Opening

During the operation of the franchised business, we will:

- (1) Designate the inventory of FURLA® products you must buy based upon your seasonal plan and sales goals. See Items 6-8. (Franchise Agreement, Section 9.09)
- (2) Continue selling you the FURLA® products and paying all shipping costs and any customs duties to the port of entry See below in this Item 11 and Items 6, 8 and 10. (Franchise Agreement, Sections 3.02 and 8.05)

We will exert reasonable efforts to fulfill, or to cause our affiliates to fulfill, your orders for FURLA® products on a timely basis. If we, our affiliates or their suppliers are unable to supply our clientele (including you and other franchisees and licensees) with the quantity and type of FURLA® products which these businesses request, as a result of any cause beyond our control or the control of our affiliate or supplier, then we (in our judgment) will exert reasonable efforts to allocate, or to cause our affiliate to allocate, the available quantities and types of FURLA® products on an equitable basis among the

businesses selling FURLA® products. If you do not receive FURLA® products because of the above reasons and in Section 8.06 of the Franchise Agreement, this will not be a breach by us of the Franchise Agreement, nor will we or our affiliate be liable to you as a consequence (whether for lost opportunity, lost profits or otherwise). (Franchise Agreement, Section 8.06)

- (3) Furnish you with any specifications for required products and services. (Franchise Agreement, Section 9.09)
- (4) Periodically, either establish maximum prices above which you may not sell, or suggest prices. We will not, however, establish or advertise any *minimum* prices below which you may not sell products or services. (Franchise Agreement, Section 8.08)
- (5) Furnish requirements for the selection, training and duties of your Shop Manager and staff. (Franchise Agreement, Sections 9.07 and 9.08)
- (6) If requested in writing by you, we will provide on-site consultation and guidance concerning the operation of your Shop. We will charge you a per diem fee and other charges we might establish from time to time for this service.

Advertising

We have no obligation to maintain any advertising program. We currently advertise in magazines. We currently employ FURLA® Italy's international advertising agency.

See Items 6 and 7 for information about your local advertising requirements. You may only use advertising materials that we have furnished and you may not develop advertising materials for your own use. You must purchase all advertising and promotional materials from us or our affiliate. We or our affiliate will furnish these materials to you at our or our affiliate's cost. In addition, if you want to engage in direct mail advertising for the Shop, you may only use materials you purchase from us or our affiliates, and you must obtain our advance written approval before you do so. We or our affiliate will sell you these materials at cost.

You may not sell FURLA® products through direct response advertising (using "800" numbers or otherwise); catalogues; or, computer network sales (including, for example, World Wide Web or other solicitations via the Internet or other on-line network).

You may not maintain a World Wide Web page or otherwise maintain a presence or advertise on the Internet or any other public computer network without our advance written approval, which we may withhold for any reason or no reason. You must submit to us for approval true and correct printouts of all pages you propose to use in your Web site before use. You may only use material that we have approved. Your Web site must conform to all our Web site requirements. You must provide all hyperlinks or other links we require. If we grant approval for a Web site, you may not use any of our proprietary marks at the site except as we expressly permit. You may not post any of our proprietary, confidential or copyrighted material or information on your Web site. If you wish to modify your approved Web site, all proposed modifications must also receive our advance written approval. You must list on your Web site any Web site we maintain and any other information we require in the manner we requires. You must obtain our advance written approval for any Internet domain name and home page address. These requirements for our advance approval will apply to all activities on the Internet or other communications network that you conduct, except that you may maintain one or more e-mail addresses and may conduct individual e-mail communications without our advance written approval. You must obtain our advance approval as described above if you propose to send advertising to multiple addresses via e-mail.

We control a Marketing Fund to which other franchisees contribute 1% of their monthly Gross Sales, we will hold the Marketing Fund in a separate bank account. The entire Marketing Fund will be spent on advertising, promotion and marketing of goods and services provided to FURLA® stores. We will not use any portion of the Marketing Fund to solicit franchisees. We may charge the Marketing Fund a reasonable administrative fee (however no more than \$500/month). Our Marketing Fund is not limited to any specific area or territory or any media in which ads are disseminated. We are not limited to local, regional or national programs, but may use a combination of same. We may use the Marketing Fund to hire outside agencies for advertising and marketing advice and services. We administer and control all expenditures from the Marketing Fund and will account for it separately.

The Marketing Fund is audited in conjunction with our annual audit. Typically our audited financial statements are available within one hundred twenty (120) days of October 31st of each year, which is our fiscal year end. Annual Statements for this account are available to you on request. There are no other advertising funds to which you must contribute. No Marketing Fund money was paid during the most recently ended fiscal year. We are not required to spend the Marketing Fund in any specific geographic area or territory.

There is no advertising cooperative. The Marketing Fund will not use any of the ad fees collected to solicit the sale of FURLA® franchises.

All ads are prepared by us, FURLA® Spa or by the publication we are using. We currently do not charge for the preparation of these ads.

Our company-owned or affiliated stores are not obligated to contribute to the Marketing Fund.

Funds not spent in the year they accrue are carried into the next year.

Computerized Point of Sale System

Before your Shop opens, you must purchase and install at the Shop at your expense our designated computerized point of sale system and software.

We have decided to utilize the Fortech Spa "Stores2" point-of-sale program. We have established our new hardware specifications. Your computerized point of sale system and software must meet the following hardware specifications: an IBM or compatible workstation with Intel Pentium 4 with a 1.2 GB processor or above, 30 GB Hard Drive, a Modem and a 10/100 Ethernet card, electronic cash drawer, sales receipt printer and bar code scanner. You may purchase the hardware from any vendor.

The software license agreement required by the publisher or vendor of the software is the "shrink-wrap" type which requires a "click" agreement when installing same. A software maintenance/updates agreement ("click" type) with the publisher or vendor and pay the publisher or vendor its reasonable charges and fees for these services that is currently priced at \$400 per year. You must obtain from the publisher or vendor and use new or upgraded proprietary software programs, manuals and/or computer-related materials whenever we determine to adopt them system-wide.

If we decide to substitute one or more other programs for our then-currently designated point of sale software program(s), then, when we notify you, you must: cease using the then-currently designated software program(s); purchase the newly-designated software program(s); and, use the new software program(s) in the operation of your franchised business.

You must provide any assistance we require to bring your system on line with our headquarters system at the earliest possible time. You must accurately, consistently and completely record, structure, capture and provide all required information through your computerized point of sale system. We may poll your system and retrieve whatever data and information from your POS system, as we consider necessary, desirable or appropriate. There are no contractual limitations on our right to access your data. We will bear the telephonic cost of retrieval.

You will use your computerized point of sale system for accounting; to monitor sales and control inventory; and, for other business functions (if you wish to use any other functions).

You must keep your system in good maintenance and repair. We can require you to add, substitute or replace computer hardware, memory, ports, accessories, peripheral equipment or software or replace your entire system. There are no contractual limitations on the frequency or cost of your obligation to upgrade and replace hardware and software for your computerized point of sale system.

You must also acquire and maintain any additional or substitute communications capability with us and the equipment necessary for this capability that we may require.

Time to Open

You must open your Shop within 120 days after we sign your Franchise Agreement. We estimate that the typical length of time between the signing of the Franchise Agreement and the opening of your FURLA® Shop is 120 days. Factors affecting time include obtaining a satisfactory Shop site, obtaining a lease, complying with local ordinances, engaging the architect and general contractor and completing the Shop build-out, attending and completing our Initial Training Program, and delivery of opening inventory.

Item 12

TERRITORY

We will grant you a geographic area (the "Territory"). The Territory we grant you may vary depending on the type of location – the minimum Territory will consist of a 5-block radius from a Shop with an urban location and a 1-mile radius from a Shop with a suburban or rural location. We will describe your Territory in detail in Exhibit A to your Franchise Agreement.

You may operate your franchised Shop from only one Shop Location. "Shop Location" means a location you select and we approve, at which you operate the FURLA® Shop.

You must comply with the time limits and procedures in Section 6 of the Franchise Agreement in securing your Shop Location. If you fail to comply, then we can terminate the Franchise Agreement.

You may not relocate the Shop without our previous written approval from us. We will grant approval if you are in full compliance with the Franchise Agreement, you have paid all money owed to us and our affiliates, the proposed location meets our site selection criteria and does not encroach upon another authorized FURLA® territory, and you comply with the lease requirements in the Franchise Agreement. We may, if we wish, inspect your proposed new location. You must pay us any costs of furnishing suggested layout plans to you for the new location and our other costs of your relocation.

You have no marketing exclusivity in your Territory. All FURLA® Shops can advertise and offer their products anywhere, including your Territory. You may engage in direct mail advertising for your Shop using materials purchased from or approved by us or our affiliates and after obtaining our advance written approval as described in Item 11, you may not sell the FURLA® products through direct response advertising (using "800" numbers or otherwise); catalogues; or, computer network sales (including, for example, World Wide Web and/or other solicitations via the Internet or other on-line network).

While the Franchise Agreement is in effect and you are not in default of the Agreement or any of its attachments or Exhibits, we and our affiliates will not, in your Territory, own, operate, franchise or license a dedicated FURLA® Shop selling FURLA® products under the Proprietary Marks, but these restrictions on us and our affiliates apply solely to dedicated FURLA® Shops selling FURLA® products under the Proprietary Marks within the Territory, and we and our affiliates have the right:

- To own and operate FURLA® Shops outside your Territory (through ownership, contracts, joint-ventures, etc.).
- To grant franchises and licenses for FURLA® Shops outside your Territory.

- Within or outside your Territory, to offer, sell, franchise, license, or permit others to offer and sell the FURLA® Products, and/or other products or services, under the Proprietary Mark "FURLA®" and/or under any other proprietary marks, whether or not the products are identical to those you will sell, through any channel(s) of distribution whatsoever other than a dedicated FURLA® Shop selling the Products and/or other products and services under the Proprietary Mark "FURLA®", from any location whatsoever, including near your Shop. These other channels and methods of distribution may include, for example, the following: shops, boutiques or franchised or licensed departments situated on the premises of another enterprise (a "shop-in-shop"); department stores; specialty stores also selling the products of third parties unrelated to us and our affiliates; other retail establishments of any kind (other than a dedicated FURLA® Shop); direct mail or mail order deliveries; direct response advertising (using "800" numbers or otherwise); catalogues; television; and, computer network sales (including, for example, World Wide Web and/or other solicitations via the Internet or other on-line network or electronic media whether in existence today or developed in the future).
- To offer and sell services and products in your Territory that are not part of the FURLA® System, and to use our Proprietary Marks, name, reputation and know-how for these services and products.
- To purchase, merge, acquire or affiliate with an existing retail accessory store chain, franchise network or any other business regardless of the location of that chain's, network's or business's facilities, and to operate, franchise or license those businesses and/or facilities as FURLA® Shops operating under the Proprietary Marks or any other marks after the purchase, merger, acquisition or affiliation, regardless of the location of these facilities, which may be within your Territory, near your Territory, or near your Shop
- To offer and sell (either ourselves or through other franchisees and licensees), through channels and methods of distribution other than a dedicated FURLA® Shop, those services and products which you will offer and sell, to any customer wherever situated, including customers situated within your Territory and including in close proximity to your Shop Location. These other channels and methods of distribution may include, for example, electronic marketing, such as computer network sales (including, without limitation, World Wide Web and/or other solicitations via the Internet or other on-line network); catalogues; television; shops, boutiques or licensed departments situated on the premises of another retail enterprise which also sells the products of third parties unrelated to us or any of our affiliates; and, other retail establishments of any kind other than a dedicated FURLA® Shop.
- After the termination or expiration of the Franchise Agreement, to offer and sell in your Territory (directly or through franchises) the same products that you will sell under the Franchise Agreement by any means or channel or distribution whatsoever, including dedicated FURLA® Shops.

Under the terms of the Franchise Agreement, you waive and release any claims, demands or damages arising from or related to any of the activities described above, including, for example, any claim of divided loyalty; breach of fiduciary duty; fraud; unfair competition; tortious interference; unjust enrichment; breach of contract; and/or, breach of the implied covenant of good faith and fair dealing. Under the terms of the Franchise Agreement, you agree never to start or join in any legal action or proceeding or arbitration, or register a complaint with any governmental entity, directly or indirectly contending otherwise or in any way complaining of the activities described above. The essence of this provision is that the boundary of the Territory conferred under the Franchise Agreement is to be considered for all purposes a strict boundary and not subject to further judicial or other construction, implication or attempts to expand it, directly or indirectly, and outside of which (or within which, to the extent described above) we and our affiliates may engage in any business activity. The waiver, release and other provisions of this paragraph are not intended to act, nor will they act, as a release, estoppel or waiver of any liability incurred under the Maryland Franchise Registration and Disclosure Law.

We and our affiliates have not established and do not intend to establish any other franchises, company-owned outlets or other distribution channels offering similar services under a different trademark anywhere in the United States.

The Franchise Agreement grants you no options, rights of first refusal or similar rights to acquire additional franchises within the Territory or contiguous territories.

Annual Minimum Sales Requirement

Your rights in and to your territory are not dependent on your meeting a minimum sales quota. The configuration of your territory will not change except by mutual agreement, in writing, of you and us.

If the Location's sales productivity, at any time or as many times, reaches an annualized minimum of \$1,200 sales per square foot, for any three consecutive month period Franchisee agrees to, within a six month period, either; (a) open a second location within the Territory a minimum of 700 square foot in size, (b) expand the selling space of the Location to a sufficient size which will reasonably be expected to reduce the annualized sales productivity to less than \$1,000 sales per square foot, (c) to relocate the Location to an approved location within the Territory to a space of sufficiently larger size to achieve annualized sales of less than \$1,000 sales per square foot or (d) provided Franchisee is in full compliance with this Agreement, open another FURLA® (Alternate Location), in a different non-franchised area, which Alternate Location must be pre-approved by the Franchisor and which is reasonably expected to reduce the sales productivity of the Location. However, if Franchisee selects option (d) above and this Alternate Location does not reduce the sales per square foot productivity to less than an annualized \$1,000 per square foot in the Location covered by this agreement within 6 months of opening the Alternate Location, Franchisee will be required to comply with one of options (a), (b) or (c) listed previously in this paragraph.

Inventory Requirements.

You must purchase and maintain in your inventory all current seasonal categories and minimum amounts of FURLA® products that we designate by line, article, color and/or other classification. You must also maintain an inventory of each category of FURLA® product adequate to satisfy customer demand at all times. If you do not purchase and maintain the required product inventory or maintain an adequate inventory of each current seasons product category to satisfy customer demand, we can terminate the Franchise Agreement unless you cure the violation within the time provided (see Item 17)

Item 13

TRADEMARKS

The principal FURLA® commercial symbol that we will license to you appears on the cover of this offering circular. Our affiliate, FURLA® USA, Inc., has registered the FURLA® trademark with the United States Patent and Trademark Office and has authorized us to license it to our franchisees. The following is a description of the principal FURLA® trademark that we will license to you.

DESCRIPTION OF MARK	REGISTRATION NUMBER	REGISTRATION DATE	PRINCIPAL OR SUPPLEMENTAL REGISTER
FURLA	1,263,380	1/10/84	Principal
FURLA	2,674,884	1/14/03	Principal

The terms "Proprietary Marks" or "Marks" mean our symbols, trademarks, service marks, logotypes and trade names. There are presently no effective determinations of the U.S. Patent and Trademark Office, any

trademark trial and appeal board, the Trademark Administrator of any state or any court, any pending interference, opposition, or cancellation proceeding, or any pending material litigation involving any of the above-referenced Proprietary Marks which is relevant to your use. There are no agreements that significantly limit our rights to use or license the Proprietary Marks. There are no infringing uses or superior prior rights known to us that can materially affect your use of the Proprietary Marks in this state or any other state in which the franchised Shop is to be located.

If you learn of any claim against you for alleged infringement, unfair competition, or similar claims about the Proprietary Marks, you must promptly notify us. We will promptly take the action we consider necessary to defend you. We must indemnify you for any action against you by a third party based solely on alleged infringement, unfair competition, or similar claims about the Proprietary Marks. You may not settle or compromise any of these claims without our previous written consent. We will have the right to defend and settle any claim at our sole expense, using our own counsel. You must cooperate with us in the defense. Under the Franchise Agreement, you irrevocably grant us authority to defend or settle these claims. You may participate at your own expense, but our decisions with regard to the defense or settlement will be final. We will have no obligation to defend or indemnify you if the claim against you relates to your use of the Proprietary Marks in violation of the Franchise Agreement.

If you learn that any third party whom you believe is not authorized to use the Proprietary Marks is using the Marks or any variant of the Marks, you must promptly notify us. We will determine whether or not we wish to take any action against the third party. You will have no right to make any demand or to prosecute any claim against the alleged infringer for the infringement.

You must comply with any instruction by us to modify or discontinue use of any Proprietary Mark or to adopt or use additional or substituted Proprietary Marks. If this happens, we will reimburse you for your documented expenses of complying (such as changing signs, stationery, etc.). You waive any other claim for changes and substitutions. Except for reimbursing your documented expenses of complying, we will not be liable to you for any resulting expenses. You promise in the Franchise Agreement not to start or join any proceeding against us for any resulting expenses.

Item 14

PATENTS, COPYRIGHTS AND PROPRIETARY INFORMATION

We hold no patents. We claim copyrights on certain forms, advertisements, promotional materials and other written materials. We also claim copyrights and other proprietary rights in the FURLA[®] Confidential Operating Manual.

You do not receive the right to use an item covered by a patent or copyright, but you must use the proprietary information contained in our Operations Manual. The Operations Manual and the specifics on your use of the Operations Manual are described in an Section of the franchise agreement. Although we have not filed an application for copyright registration, we claim copyright protection for the Operations Manual, software, advertising materials, other materials we give you for your use or for public dissemination, other proprietary information and publications we own or have acquired under license from a third party, and everything concerning our Operations Manual. All of this is our proprietary intellectual property.

There are no agreements currently in effect that significantly limit your right to use any of our copyrights. Also, there are no currently effective determinations of the Copyright Office (Library of Congress) or any court pertaining to or affecting any of our copyrights discussed above. Finally, as of the date of this offering circular, we are unaware of any infringing uses of or superior prior rights to any of our copyrights that could materially affect your use of them in this state or in the state in which the franchised FURLA[®] Shop will be located.

Your and our obligations to protect your rights to use our copyrights are the same as the obligations for Proprietary Marks described in Item 13 of this offering circular.

You may never – during the Initial Term, any Renewal Term, or after the Franchise Agreement expires or is terminated – reveal any of our confidential information to another person or use it for any other person or business. You may not copy any of our confidential information or give it to a third party except as we authorize. The persons described in Item 15 must execute our Confidentiality/Non-Competition Agreement (Exhibit B to the Franchise Agreement).

You must irrevocably license to us any sales, marketing and promotional programs, campaigns and materials and any software programs you develop in connection with your Shop. We will not be liable to you in any way because of this license.

Item 15

OBLIGATION TO PARTICIPATE IN THE ACTUAL OPERATION OF THE FRANCHISE BUSINESS

You must personally supervise the operation of the franchised Shop, unless we permit otherwise in writing. You must devote the necessary time and your best efforts for the proper and effective operation of the Shop. If we license you to operate more than one FURLA® Shop, you must devote the time necessary for the proper and effective operation of all your Shops.

If an individual, you must either serve as or designate a full-time experienced Shop Manager. An entity franchisee must designate a full time experienced Shop Manager. The Shop Manager, who will have day-to-day management responsibility for your FURLA® Shop, will exercise on-premises supervision and personally participate in the direct operation of the Shop. The duties and hours of the Shop Manager are in our Manual. You must inform us in writing of your Shop Managers and any successors. We must approve your Shop Managers. Your Shop Managers must complete the Initial Training Program to our satisfaction. After a Shop Manager's death, disability or termination of employment, you must immediately notify us, and you must designate a successor or acting Shop Manager in 10 days.

If the franchisee is a business entity, the Shop Manager need not have any equity interest in the franchisee entity.

Each individual who owns an equity interest in the franchise entity must sign an agreement guarantying, assuming and agreeing to discharge all obligations of the franchisee under the franchise agreement. Each of your owners must jointly and severally be bound by the terms of the franchise agreement and personally guarantee performance.

The following persons must execute our confidentiality/non-competition agreement (Exhibit B to the Franchise Agreement)

- Before employment or any promotion, all your Shop Managers and any Assistant Shop Managers, any personnel you employ who have received or will receive training from us, and all your other supervisory employees.
- If you are a corporation, all your officers, directors and shareholders and those of any corporation directly or indirectly controlling you, when you sign the Franchise Agreement (or when they assume this status).
- If you are a partnership, all partners, when you sign the Franchise Agreement (or when they assume this status).

- All owners of a proprietorship interest in you, when you sign the Franchise Agreement (or when they assume this status).
- All of the persons listed in the covenants not to compete in the Franchise Agreement as intended to be embraced by the covenants.

Item 16

RESTRICTIONS ON WHAT THE FRANCHISEE MAY SELL

You must offer and sell all FURLA® products (and any services) that are part of the FURLA® System, and all other products and services that we incorporate into the FURLA® System in the future. You may not offer or sell any product or service which is not a part of the FURLA® System or which we delete from the System. You may not use the FURLA® name or the Proprietary Marks for the benefit of any business other than the franchised Shop. You may not conduct (or permit the conducting of) any business other than the business contemplated by the Franchise Agreement at or from the Shop without our advance written consent, which we may withhold for any reason or for no reason.

We may add to, delete from or modify the products, services and programs which you can and must offer, alter the System or abandon the System altogether in favor of another system. You must abide by any additions, deletions and modifications, but only if the changes do not materially and unreasonably increase your obligations under the Franchise Agreement.

You must offer, sell and display the FURLA® products in the manner we require, and you may not offer, sell or display the FURLA® System Products in any manner that we prohibit. You may not hold a going-out-of-business sale, liquidation sale or other sale outside the ordinary course of business without obtaining our advance written approval, but you determine the prices that you charge your customers, subject to the pricing provisions described in Item 11.

You must comply with all applicable laws, rules and regulations; file all necessary tax returns; pay all taxes; and, obtain and keep all necessary licenses, permits and governmental approvals.

You may not, without our advance written consent, offer or sell the FURLA® System products, or sell, dispense, give away or provide any merchandise bearing the Proprietary Marks, except by means of retail sales at your Shop. You may not engage in the wholesale sale or distribution of any FURLA® product, service, equipment or other component, or any related product or service. You may not conduct any sales at prices lower than your regular prices for the FURLA® products in question more frequently than twice a year, and you may only conduct the sales in the months of January and July.

While you may engage in direct mail advertising for your Shop (after obtaining our advance written approval as described above), you may not sell the FURLA® products through direct response advertising (using "800" numbers or otherwise); catalogues; television; or, computer network sales (including, for example, World Wide Web and/or other solicitations via the Internet or other on-line network). There is no limitation on the retail customers to whom you may offer and sell your products. We grant you no marketing exclusivity in your Territory. Other FURLA® Shops may advertise and offer their FURLA® products and services to any person regardless of location.

If any of your customers returns a FURLA® product within 30 days of purchase by the customer, then you must repair the Product at no cost to the customer, and we will reimburse you for your costs of repair. If any of your customers returns a FURLA® product later than 30 days of purchase by the customer, then you must repair the product at no cost to the customer, but we will not reimburse you for your costs of repair. You must operate your FURLA® franchise in accordance with our Operations Manual. Our Operations Manual may regulate any one or more of the following:

- Design, layout, decor, appearance and lighting; periodic maintenance, cleaning and sanitation; general physical up-keep; periodic remodeling; replacement of obsolete, damaged or worn out leasehold improvements, fixtures, furnishings, equipment and signs; periodic painting; and use of interior and exterior signs, emblems, lettering and logos and the illumination thereof;
- Types, models and brands of required fixtures, furnishings, equipment, signs, materials and supplies;
- Required or authorized products and product categories;
- Designated or approved suppliers (which may be limited to or include us) of fixtures, furnishings, equipment, signs, products, materials and supplies;
- Terms and conditions of the sale and delivery of, including, without limitation, credit terms and letter of credit amounts, and terms and methods of payment for, and security deposits for, products, materials, supplies and services including direct labor, that you obtain from us, our affiliates or others;
- Sales, marketing, advertising and promotional programs and materials and media used in such programs, including, without limitation, the right to enforce price policies and timing and duration of price reduction periods;
- Use and display of the principal trademarks;
- Staffing levels for your FURLA[®] franchise and matters relating to managing it; communication to us of the identities of your personnel; and qualifications, training, overall quality, dress and appearance of employees;
- Days and hours of operation of your FURLA[®] franchise;
- Participation in market research and testing and product and service development programs;
- Acceptance of credit cards, other payment systems and check verification services;
- Bookkeeping, accounting, data processing and record keeping systems and forms; methods, formats, content and frequency of reports to us of sales, revenue, financial performance and condition; and furnishing tax returns and other operating and financial information to us, which must be signed by one of your officers;
- Types, amounts, terms and conditions of insurance coverage required to be carried for your FURLA[®] franchise and standards for underwriters of policies providing required insurance coverage; our protection and rights under such policies as an additional named insured; required or impermissible insurance contract provisions; assignment of policy rights to us; periodic verification of insurance coverage that must be furnished to us; our right to obtain insurance coverage at your expense if you fail to obtain required coverage; our right to defend claims; and similar matters relating to insured and uninsured claims;
- Complying with applicable laws; obtaining required licenses and permits; adhering to good business practices; observing high standards of honesty, integrity, fair dealing and ethical business conduct in all dealings with customers, suppliers and us; and notifying us if any action, suit or proceeding is commenced against you or the FURLA[®] franchise; and
- Regulation of such other aspects of the operation and maintenance of the FURLA[®] franchise that we determine from time to time to be useful to preserve or enhance the efficient operation, image or

goodwill of the principal trademarks and all FURLA® businesses.

ITEM 17

RENEWAL, TERMINATION, TRANSFER AND DISPUTE RESOLUTION

THIS TABLE LISTS CERTAIN IMPORTANT PROVISIONS OF THE FRANCHISE AND RELATED AGREEMENTS PERTAINING TO RENEWAL, TERMINATION, TRANSFER AND DISPUTE RESOLUTION. YOU SHOULD READ THESE PROVISIONS IN THE AGREEMENTS ATTACHED TO THIS OFFERING CIRCULAR.

Provisions	Section in Franchise Agreement	Summary
a. Term of the franchise	Section 5.01	Term is between 7-10 years, coinciding as nearly as possible with the terms of your lease for the franchised location.
b. Renewal or extension of the term	Sections 5.01-5.04	You can renew for a term of 7-10 years if we are franchising in your state or province (or, if your country has no states or provinces, in your country) and you (a) notify us between 180 and 240 days before expiration; (b) follow required notice procedures; (c) comply with the Franchise Agreement and Manual and did not receive two or more Notices of Default within 2 years of the expiration date; and, (d) satisfy all monetary obligations to us or our affiliates, and you met these obligations on time throughout the Initial Term. The terms of the Renewal Agreement may differ from the terms of the Franchise Agreement, but the boundaries of the Territory will remain the same, and the Continuing Royalty on renewal will not be greater than the Continuing Royalty that we then impose on new franchisees.
c. Requirements for you to renew or extend	Section 5.02	<ul style="list-style-type: none"> a. Refurbish, redesign and remodel your Shop. b. Renew your lease on terms acceptable to you and us, or lease an acceptable new Shop Location in your Territory without any interruption of business. c. Execute a general release of all claims against us, our affiliates, etc., under the Franchise Agreement (but <u>not</u> releasing them from future claims under the Renewal Agreement). d. Pay us a \$20,000 renewal fee.
d. Termination by you	Sections 6.03, 18.02, 18.04	<ul style="list-style-type: none"> a. If you are unable to obtain all governmental approvals, consents and licenses required for you to lawfully open and operate the FURLA® Shop by the scheduled opening date, you and we each have the right to terminate the Franchise Agreement on notice to the other. b. You may terminate the Franchise Agreement if you and we agree in writing. c. Your failure to pay any Continuing Royalties, System Advertising Contributions or other money after you receive notice of the default granting an opportunity to cure, will mean that you are willfully and wrongful breaching the Franchise Agreement or any other agreement or contract terms we subsequently agree upon, in writing, and that you have decided to reject and terminate the Franchise Agreement and all Agreements between you and we (or our Affiliates) related to the Franchise Agreement.
e. Termination by us without cause	None.	The franchise agreement does not permit us to terminate you without cause.
f. Termination by us with cause	Section 18	We may terminate only if you default. The Franchise Agreement describes defaults throughout – please read it carefully.
g. Cause defined B defaults which can be cured	Section 18.03	You have 15 days to cure any default under the Franchise Agreement except for defaults which cannot be cured, as described below.

Provisions	Section in Franchise Agreement	Summary
h. Cause defined B defaults which cannot be cured	Sections 18.01 and 18.02	<p>Immediate without notice: bankruptcy, insolvency, receivership, dissolution or levy. On notice to you:</p> <ul style="list-style-type: none"> a. You fail to open the franchised Shop within 120 days following our signing of the Franchise Agreement or abandon the franchise relationship, or abandon the franchise by failing to operate the Shop for 5 consecutive days when we require you to operate it, unless due to causes beyond your control. b. You omitted or misrepresented a material fact in information you furnished us in connection with our decision to sign Franchise Agreement. c. You and we agree in writing to terminate. d. You lose the right to possess the Shop. But if the loss is due to eminent domain, or if, through no fault of yours, the premises are damaged or destroyed, you have 30 days to apply for our approval to relocate and reconstruct. We may not unreasonably withhold approval. It will be reasonable for us to withhold approval if the Shop will not re-open within 120 days. e. You (or any principal of a corporation, partnership or proprietorship franchisee) are convicted of a felony, fraud, etc. f. A threat or danger to public health or safety results from your continued operation of the Shop. g. You make an unauthorized transfer. h. You fail to comply with the in-term covenant not to compete, or to obtain the required additional covenants. i. Before you open, we determine that your Shop Manager failed to attend or successfully complete the Initial Training Program. j. You conceal revenues, knowingly maintain false books or records, or submit any false report to us. k. You fail to maintain the required financial records. l. You refuse us permission to inspect or audit. m. After curing a default, you commit the same default again in 6 months. n. You make any unauthorized use of the Proprietary Marks. o. You fail to cure a default which materially impairs the goodwill associated with our Proprietary Marks after at least 72 hours' written notice to cure. p. You fail for 10 days after notice to comply with any law or regulation applicable to the Shop. q. You repeatedly fail to comply with one or more requirements of Franchise Agreement, whether or not corrected after notice. r. You offer or sell any unapproved product, service or program, fail to continue offering and selling all products, and services which are part of the System, or fail to use and disseminate all materials, notices and procedures we specify. s. You use or duplicate our System, products, services or programs in an unauthorized way. t. You fail to devote the time and best efforts necessary for the proper and effective operation of the Shop. u. You fail to purchase or maintain required insurance v. You operate the franchise location off-price or as a discount outlet, etc. w. You fail to purchase current year seasonal FURLA® products and categories in a quantity sufficient to satisfy customer demand in your territory.
i. Your obligations on	Section 19	a. Immediately pay all sums owing to us or our affiliates, and third parties.

Provisions	Section in Franchise Agreement	Summary
<p>termination/non-renewal</p>		<p>b. Stop using our Proprietary Marks, confidential information, trade secrets and Manual and follow our termination procedures.</p> <p>c. Cancel assumed name or equivalent registration which contains "", or any other Proprietary Mark of , or any variant, in 15 days.</p> <p>d. If we terminate the Franchise Agreement for your default or you terminate through failure to make payment following notice to cure (see section d. above), pay us all expenses incurred as a result of your default or termination.</p> <p>e. If we request, assign us your interest in the Shop Location leases and vacate promptly.</p> <p>f. If you own Shop Location, grant us lease for the Shop Location on commercially reasonable terms. See Franchise Agreement.</p> <p>g. In 15 days, arrange with us for an inventory by us, at our cost, of personal property, fixtures, equipment and supplies, including your inventory of FURLA® products. We will have the option for 30 days after termination or expiration to buy these at fair market value. Fair market value means depreciated book value or actual fair market value, whichever is less.</p> <p>h. Immediately deliver to us all training or other manuals (including the Confidential Operating Manual), all computer software and database material, customer lists, records and files, forms, advertising and promotional material, signs and related items which bear our Proprietary Marks.</p> <p>i. Immediately sign agreements necessary for termination.</p> <p>j. Stop using the telephone numbers listed in directories under the name "" or any confusingly similar name.</p> <p>k. Abide by restrictions on the use of our confidential information, trade secrets and know-how and comply with post-term covenants not to compete.</p> <p>l. Immediately stop all contacts with customers.</p> <p>m. Immediately give us all computer software, disks or tapes, printouts, and other computer information.</p> <p>n. If we choose not to take over the Shop, redecorate and remodel it to distinguish it from a FURLA® Shop.</p> <p>If we terminate for cause, we can take possession of the Shop. If you dispute the termination, then we can operate the Shop until the final court determination. If the court decides the termination was not valid, we must make a complete accounting for the period when we operated the Shop.</p>
<p>j. Assignment of contract by us</p>	<p>Section 15.01</p>	<p>We will have the right to assign if the assignee is financially responsible and economically capable of performing our obligations under the Franchise Agreement, and agrees to perform these obligations. We may sell our assets, Proprietary Marks, or System; go public, etc. (see Franchise Agreement)</p>
<p>k. Transfer by you definition</p>	<p>Section 15.02</p>	<p>The transfer or redemption of: more than 25% of the stock or voting power of a corporate franchisee; more than 25% of a partnership or proprietorship interest in a partnership or proprietorship franchisee; or, more than 25% of a general partner's interest in a limited partnership franchisee, to any person not (i) already a shareholder, partner or proprietor, (ii) the spouse of any of those persons, etc. (see Franchise Agreement). You must immediately report to us all transfers of ownership, even if less than 25%. All transfers require our prior written approval</p>
<p>l. Our approval of transfer by you</p>	<p>Section 15.02</p>	<p>No transfer without our consent except as provided in Franchise Agreement (for example, transfer to a corporation you form for convenience).</p>
<p>m. Conditions for our</p>	<p>Section</p>	<p>a. You must comply with our right of first refusal.</p>

Provisions	Section in Franchise Agreement	Summary
approval of transfer	15.04	<p>b. The person to whom you propose to transfer (the "transferee") must apply to us for acceptance. We will use then standard new franchisee acceptance and approval criteria and Transferee character references to determine acceptability of Transferee.</p> <p>c. Transferee must come to a personal interview.</p> <p>d. Transferee (or officers, shareholders and directors, if a corporation) must demonstrate the qualifications, ethics, economic and financial resources, etc. necessary, in our reasonable judgment, to conduct the business and to fulfill obligations to you and to operate the business as a first class, regularly priced retail business and not lessen the FURLA® brand image in any way.</p> <p>e. Transferee and proposed Shop Manager(s) must attend and successfully complete Initial Training Program before assignment (and other training if we wish), at transferee's expense.</p> <p>f. The landlord of the Shop Location must consent in writing to the assignment of lease.</p> <p>g. You must fully comply with all obligations to us and satisfy your outstanding monetary obligations to third parties, including trade debts.</p> <p>h. Transferee must sign new Franchise Agreement. Term of new Franchise Agreement will expire on date of expiration of your Franchise Agreement.</p> <p>i. Total Sales Price (defined in Franchise Agreement) must not jeopardize the continued economic viability and future operations of the franchise.</p> <p>j. You must execute a general release in substance and form acceptable to us.</p> <p>k. If transferee is a corporation, partnership or proprietorship, there are various requirements.</p> <p>l. You must give us a copy of the signed assignment contract.</p> <p>m. Transferee must upgrade Shop to conform to then-current standards.</p> <p>n. You must remain liable for all Franchise Agreement obligations to us before the effective date of the transfer, and sign all documents we reasonably request to demonstrate this liability.</p> <p>o You must comply with covenant not to compete.</p> <p>p. Any special provisions contained within your Franchise Agreement are not conveyed to the Transferee unless specifically agreed upon in writing by us.</p> <p>q. You or Transferee pay to us a \$10,000 transfer fee.</p>
n. Our right of first refusal to purchase your business	Section 15.06	We can match any offer for your Shop.
o. Our option to purchase your business	None	
p. Your death or disability	Section 15.05	On your death or disability your rights pass to your Estate. Your Estate may continue operating the Shop if it provides an acceptable Shop Manager. This Shop Manager must successfully complete our next Initial Training Program and assume full-time operation of the franchise within 1 month of your death or disability. From the date of your death or disability until a Shop Manager assumes full-time control, we can operate your Shop, but need not do so.
q. Non-competition covenants during the term of the franchise	Section 14.01	No involvement in competing business anywhere in U.S.
r. Non-competition covenants after the	Section 14.02	No competing business for 2 years within your Territory, within 10 miles of the perimeter of your Territory, or within 10 miles of the perimeter of any FURLA®

Provisions	Section in Franchise Agreement	Summary
franchise is terminated or expires		Territory.
s. Modification of the agreement	Sections 22.01 and 22.02	Must be in writing. We may change the Manual from time to time to suit the needs of the business environment. Any Manual change will not unreasonably increase your financial obligations in the Franchise Agreement.
t. Integration/merger clause	Section 22.01	Only the terms of the Franchise Agreement, the Exhibits to the Franchise Agreement and all agreements signed with it are enforceable (subject to state law). Any other promises may not be enforceable. Oral statements not binding.
u. Dispute resolution by arbitration or mediation	None	No provision for arbitration.
v. Choice of forum	Section 25.04	Litigation must be at New York, New York
w. Choice of law	Section 25.03	New York law applies.
x. Responsibility for taxes		You are responsible for all taxes arising from your business
y. Copyrights		We own any materials submitted to us for approval
z. Damages		For breach of restrictive covenants, an amount equal to the greater of \$25,000 or 4% of Gross Sales over prior 24 months actual damages
aa. Damage to Image		For breach of pricing policy, a per occurrence amount of \$10,000

These states have statutes which may supersede the Franchise Agreement in your relationship with us including the areas of termination and renewal of your franchise: ARKANSAS [Stat. Section 70-807], CALIFORNIA [Bus. & Prof. Code Sections 20000-20043], CONNECTICUT [Gen. Stat. Section 42-133e et seq.], DELAWARE [Code, Tit. 6, Ch. 25, Sections 2551 et seq.], HAWAII [Rev. Stat. Section 482E-1], ILLINOIS [815 ILCS 705/19 AND 705/20], INDIANA [Stat. Section 23-2-2.7], IOWA [Code Sections 523H.1-523H.17], MICHIGAN [Stat. Section 19.854(27)], MINNESOTA [Stat. Section 80C.14], MISSISSIPPI [Code Section 75-24-51], MISSOURI [Stat. Section 407.400], NEBRASKA [Rev. Stat. Section 87-401], NEW JERSEY [Stat. Section 56:10-1], SOUTH DAKOTA [Codified Laws Section 37-5A-51], VIRGINIA [Code 13.1-557-574-13.1-564], WASHINGTON [Code Section 19.100.180] and WISCONSIN [Stat. Section 135.03]. These and other states may have court decisions which may supersede the Franchise Agreement in your relationship with us including the areas of termination and renewal of your franchise.

The provision of the Franchise Agreement that provides for termination upon your bankruptcy may not be enforceable under federal bankruptcy law (11 U.S.C. Section 101 *et seq.*).

See the state addenda to the Franchise Agreement and Offering Circular for special state disclosures.

Item 18

PUBLIC FIGURES

We do not use any public figure to promote our franchises.

Item 19

EARNINGS CLAIMS

We do not furnish, or authorize our salespersons or anyone else to furnish any oral or written information concerning the actual or potential sales, costs, income or profits of a franchised FURLA® Shop. Actual results vary from unit to unit and we cannot estimate the results of any particular franchise.

Item 20

LIST OF OUTLETS

We first began offering franchises in October 2001. We have not terminated, canceled, refused to renew or reacquired the franchise of any franchisee in any state; no franchisees have transferred ownership; one (1) franchisee in Florida voluntarily ceased to do business under a FURLA® Franchise Agreement; and, there is no franchisee in any state who has not communicated with us within 10 weeks of the application date of this offering circular.

We have granted a trademark license for the development and operation of non-franchised Shops in Mexico.

FRANCHISED BUSINESS STATUS SUMMARY - FOR YEARS 2005/2004/2003*

STATE	TRANSFERS	CANCELED OR TERMINATED	NOT RENEWED	REACQUIRED BY FRANCHISOR	LEFT THE SYSTEM (OTHER)	TOTAL FROM LEFT COLUMNS*	FRANCHISES OPERATING AT YEAR END
CALIFORNIA	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	1/1/1
FLORIDA	0/0/0	0/0/0	0/0/0	0/0/0	0/0/1	0/0/1	2/2/2
NEVADA	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0
WASHINGTON	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	1/1/1
CANADA	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	2/2/1
ELSEWHERE	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	9/9/6
TOTALS:	0/0/0	0/0/0	0/0/0	0/0/0	0/0/1	0/0/1	15/15/11

STATUS OF COMPANY OWNED SHOPS - FOR YEARS 2004/2003/2002**

STATE	SHOPS CLOSED DURING YEAR	SHOPS OPENED DURING YEAR	TOTAL SHOPS OPERATING AT YEAR END
CALIFORNIA	0/0/0	0/1/1	2/2/1
NEW YORK	0/1/0	0/1/0	3/3/3
FLORIDA	0/0/0	1/0/2	3/2/2
NEW JERSEY	0/0/0	1/1/0	2/1/0
ALL OTHER STATES AND ELSEWHERE IN THE WESTERN HEMISPHERE	0/0/0	0/0/0	0/0/0
TOTALS:	0/0/0	2/2/3	10/8/6

* Our fiscal year ends October 31 of each year, but all numbers are as of December 31 for each year. The numbers in the "Total" column may exceed the number of Businesses affected because several events may have affected the same Business. For example, the same Business may have had multiple owners.

** All numbers are as of December 31 for each year. FURLA® USA (through its subsidiaries) will own and operate all company owned FURLA® Shops in the United States.

PROJECTED OPENINGS - AS OF DECEMBER 31, 2006

STATE	FRANCHISE AGREEMENT SIGNED BUT SHOP NOT OPENED AS OF 12/31/04	PROJECTED NEW FRANCHISED SHOPS IN THE NEXT FISCAL YEAR	PROJECTED NEW COMPANY OWNED SHOPS IN THE NEXT FISCAL YEAR
Puerto Rico, Washington DC, Virginia or Arizona		6	4
TOTALS:	0	6	4

The following is the name, address and telephone number of the operational franchises under a Franchise Agreement with us as of the date of this offering circular:

CALIFORNIA:

ROAM CALIFORNIA LLC
Stanford Shopping Center
830 Stanford Shopping Center
Palo Alto, California 94304
Tel. No. (650) 289-9999
Contact: William E. Klaus

FLORIDA:

Designer Leather Goods of Florida, Inc.
Villages of Merrick Park
Suite # 1105
Coral Gables, Florida 33146
Tel. No. (305) 443-4945
Contact: Veronica Bittolo-Bon

WASHINGTON:

ROAM LLC
1420 Fifth Avenue
Seattle, Washington 98101
Tel. No. (206) 749-5555
Contact: William E. Klaus

ITALSHOP OF AVENTURA, LLC
Aventura Mall
19501 Biscayne Blvd., Space #699
Aventura, Florida 33180
Tel. No. (305) 692-9088
Contact: Elias Cababie Daniel

PUERTO RICO

2 SIS, Inc.
1302 Ashford Ave
San Juan, Puerto Rico 00907
Tel No: 787-977-0045
Contact: Maria de la Cruz

VANCOUVER, B.C.:

ROAM LLC
Georgia
Vancouver, British Columbia
V6E 2Y2, Canada
Tel. No. 604-696-5555
Contact: William E. Klaus

TORONTO, ONTARIO

Marketing Support Group Limited
1008 West 41 Avenue Road
Toronto, Ontario
M5R 2G3
Tel. No. 416-923-4400
Contact: Bob Sikorski

MEXICO

Collezione di Bologna SA de CV
Ave Pres. Masaryk 393
Local 5, Polanco

VENEZUELA

Palatino SA
Furla CCCT, Nivel C1
2da ETAPA, Local 47 R06

Mexico City, MX 11560
Tel No. 52-52820480
Contact: Maria Kanan

Caracas, Venezuela 1064
58-212-9598939
Contact: Lorenzo Bittolo

ST MAARTEN
Furla St Maarten Limited Liability Co (NV)
13 Front Street
Philipsburg, St Maarten NA
Tel No: 599-542-9958
Contact: Tessy DeWeever

PANAMA
Globalex, SA
Centro Commercial Multiplaza Pacifica
Panama City, Republic of Panama
507-303-0033
Habib Movazeb

The following is the name, address and telephone number of any franchise that closed or left the FURLA® system us as of the date of this offering circular and during the past year:

FLORIDA:

ITALSHOP OF FLORIDA, LLC
The Town Center at Boca Raton
Room 1215A
Boca Raton, Florida
Tel. No. (561) 447-7172
Contact: Elias Cababie Daniel

Item 21

FINANCIAL STATEMENTS

Our audited financial statements for the periods ended , October 31, 2002, October 31, 2003 and October 31, 2004, are in Exhibit 2.

Item 22

CONTRACTS

Copies of our United States Franchise Agreement, our International Franchise Agreement and all exhibits to these Franchise Agreements (Franchised Territory and Shop Location; Exhibit A; Confidentiality/Non-Competition Agreement; Exhibit B; Guaranty and Assumption of Obligations; Exhibit C and, General Releases; Exhibit D) are included in Exhibit 1.

Item 23

RECEIPT

Exhibit 6 is a detachable receipt.

[The disclosure document ends here.]